

Message Text

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PAGE 01 ANKARA 05158 070915Z

14

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)

REVIEW OF TURKEY, JULY 12, 1976

REF: A) EDR (76) 16 B) OECD PARIS 19339

1. OECD SECRETARIAT DOCUMENT EDR (76) 16, IN EMBASSY'S OPINION, IS A PRECEPTIVE THOUGHTFUL ANALYSIS OF TURKISH ECONOMY BETWEEN 1974-1976. FURTHERMORE, ANALYSIS FOCUSES FORCEFULLY ON IMPORTANT ISSUES AND CONCERNS THAT TURKISH POLICYMAKERS WILL BE GRAPPLING WITH AS THEY PREPARE THE FOURTH FIVE-YEAR PLAN (1978-1982). THE SUPPORTING STATISTICAL SERIES ARE ACCURATE TO THE BEST OF OUR KNOWLEDGE. SECRETARIAT MAIN CONCLUSIONS FOLLOW LOGICALLY, WE THINK, FROM ANALYSIS OF ECONOMY AND SHOULD BE ADOPTED. QUESTIONS OECD MISSION PROPOSES IN REF B ARE EXCELLENT; WE FEEL THAT ANSWERS WE USUALLY RECEIVE FROM GOT IN THIS CONTEXT ARE VAGUE AND OVERLY OPTIMISTIC AND HOPE GOT REPS WILL BE MORE FORTHCOMING IN EDRC REVIEW.

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PAGE 02 ANKARA 05158 070915Z

2. EMBASSY NOTES THAT SECRETARIAT MAIN POLICY CONCLUSIONS,

THOUGH MORE DETAILED, ARE SIMILAR IN NATURE TO WORLD BANK ANALYSIS OF TURKISH ECONOMY. RECENT WORLD BANK UPDATES ON TURKEY HAVE EMPHASIZED BASIC VITALITY OF TURKISH ECONOMY AS UNDERLINED BY RELATIVELY HIGH GROWTH RATE, BUT ALSO POINT OUT THAT GOT MUST ESTABLISH PRIORITIES AS WELL AS CORRECTIVE MEASURES IN THE AREAS OF (A) HIGH RATE OF INFLATION, (B) INSUFFICIENT MOBILIZATION OF PUBLIC RESOURCES, (C) EMPLOYMENT GENERATION PROBLEMS AND (D) DETERIORATION IN THE BALANCE OF PAYMENTS.

3. WHILE IT IS UNDERSTOOD THAT EDRC REVIEW PARTICIPANTS MUST TREAD WARILY IN ANY DISCUSSIONS OF INTERNAL POLITICAL DYNAMICS OF COUNTRY UNDER DISCUSSION, SOME BACKGROUND OF TURKEY SITUATION MIGHT BE HELPFUL. IN GENERAL, ALL POLITICAL PARTIES IN TURKEY AGREE ON NEED FOR STRONG MILITARY FORCE POSITION, HIGH REAL GNP GROWTH RATE OF 7-8 PERCENT ATTAINED THRU RAPID, CAPITAL-INTENSIVE INDUSTRIALIZATION, AND NEED FOR SOCIAL WELFARE MEASURES TO PROMOTE THE POSITION OF LESS FORTUNATE IN SOCIETY. LONG-TERM PLANNING AS REPRESENTED BY FIVE-YEAR PLANS GENERALLY REFLECTS UNANIMITY OF GOALS IN THIS CONTEXT. POLITICAL PARTIES DIFFER CONSIDERABLY HOWEVER, ON WAYS TO ATTAIN GOALS. THIS FACT COUPLED WITH SERIES OF INTERIM, MINORITY OR COALITION GOVERNMENTS THAT HAVE RULED TURKEY SINCE 1971, MEANS THAT AD-HOC ECONOMIC MEASURES MORE ATTUNED TO POLITICAL EXIGENCIES OF THE MOMENT THAN TO SETTING OF REALISTIC, LONG TERM ECONOMIC PRIOR TERMS HAVE CREATED OR CONTRIBUTED TO MANY OF PROBLEMS OUTLINED IN DOCUMENT. HENCE, THE SEEMING IMPOSSIBILITY OF ANY RECENT GOVERNMENT IN TURKEY TO USE WAGE RESTRAINT OR INCOME POLICY, TO RESIST INCREASES IN AGRICULTURE SUBSIDIES OUT OF LINE WITH WORLD PRICES, TO RESTRICT MONETARY SUPPLY, TO CUT CONSUMPTION EXPENDITURES, TO BALANCE THE BUDGET, TO RAISE PRICES OF BASIC GOODS PRODUCED BY STATE ECONOMIC ENTERPRISES (SEES) OR TO GENERALLY FOCUS ON HARD ECONOMIC DECISIONS SO WELL OUTLINED IN EDRC DOCUMENT.

4. THE EDRC DOCUMENT IS UNDERSTANDABLY CAUTIOUS ABOUT ANALYZING WHETHER TURKEY WILL BE ABLE TO MAINTAIN IN THE FUTURE THE 7-8 PERCENT GNP GROWTH RATE THAT IT HAS REALIZED IN THE PAST. YET THE DOCUMENT'S EMPHASIS ON JOB-LIMITED OFFICIAL USE

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PAGE 03 ANKARA 05158 070915Z

CREATION, REDUCTION IN BUDGET DEFICITS, CONTINUING PROBLEMS OF INFLATION AND BALANCE OF PAYMENT DEFICITS, NEED FOR MONETARY RESTRAINTS, ETM., SEEMS TO LEAD TO THE CONCLUSION THAT IT MAY NOT BE ABLE TO SUSTAIN THIS RATE. IT APPEARS TO US, HOWEVER, THAT TURKISH PLANNERS AND POLITICIANS ARE STILL NOT WILLING TO FACE THIS POSSIBILITY. WHILE PLANNING OF FOURTH FIVE-YEAR PLAN (1978-1982) IS STILL IN EMBRYONIC STAGE, EMPHASIS OF POLITICIANS AND PLANNERS ALIKE STILL SEEMS ORIENTED

TOWARD CAPITAL INTENSIVE, IMPORT-SUBSTITUTION, HEAVY-INDUSTRIAL INVESTMENTS EVEN AT EXPENSE OF PROMOTING LABOR-INTENSIVE, EXPORT ORIENTED INDUSTRY OR IMPROVING EFFICIENCY OF TURKISH AGRICULTURAL SECTOR. PRESS PROJECTIONS OF FIGURES BEING USED FOR 1978-1982 PLAN PERIOD TO ATTAIN 8 PERCENT GNP GROWTH READ AS FOLLOWS IN 1975 PRICES: INVESTMENTS \$67 BILLION, IMPORTS \$40 BILLION, EXPORTS \$18 BILLION, TRADE DEFICIT \$22 BILLION, WORKER REMITTANCES, INVISIBLES, CREDITS ALREADY IN OFFING \$10 BILLION, DEFICIT TO BE FINANCED BY OTHER MEANS \$12 BILLION. THESE FIGURES ARE STAGGERING, PARTICULARLY WHEN IT IS REALIZED THAT TURKEY WILL HAVE CONSIDERABLE DIFFICULTY IN FINANCING A \$2.8-3 BILLION TRADE DEFICIT FOR 1976.

5. IN ADDITION TO EXCELLENT QUESTIONS OUTLINED IN REF B, US DELEGATE MAY WISH TO PROBE ON TURKISH ATTITUDE TOWARD PRIVATE FOREIGN INVESTMENT WITH RELATED TECHNOLOGY TRANSFER, LICENSING, AND MARKETING AND MANAGERIAL SKILLS. WHILE TURKISH INVESTMENT LAW IS LIBERAL, POLITICAL UNCERTAINTIES, BUREAUCRATIC INERTIA, AND PETTY HARASSMENT OF FOREIGN INVESTMENT ALREADY IN COUNTRY HAS VIRTUALLY DRIED UP FOREIGN INTEREST DURING LAST FIVE YEAR. THE INABILITY OF TURKEY, HOWEVER, TO FINANCE INVESTMENTS FROM ITS OWN DOMESTIC RESOURCES AND AN INCREASING DEPENDENCE ON THE IMF AND INTERNATIONAL BORROWINGS MIGHT LEAD TO A NEW WILLINGNESS TO RECONSIDER FOREIGN PRIVATE INVESTMENT. INFLUX OF INTERNATIONAL BANKERS AND TURKISH BORROWINGS ON THE EURO-MARKET IS HAVING AN EDUCATIONAL EFFECT ON THE TURKISH BUREAUCRACY, PARTICULARLY IN THE STATE INVESTMENT BANK, CENTRAL BANK AND THE TRASURY. TURKISH PARTICIPANTS MIGHT BE MORE RECEPTIVE TO COMMENTS AND QUESTIONS ON ROLE PRIVATE FOREIGN INVESTMENT COULD PLAY IN EXPORT PROMOTION, TOURISM, EMPLOYMENT CREATION AND PRODUCTIVITY IN THIS CONTEXT THAT THEY HAVE BEEN AT PREVIOUS EDRC REVIEWS.

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6. EMBASSY REGRETS THAT DUE TO SIMULTANEOUS RECENT TRANSFER OF BOTH ECON COUNSELOR AND COMMERCIAL ATTACHE, WE ARE UNABLE TO SEND REPRESENTATIVE TO EDRC REVIEW.

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